

June 8, 2004

Ms. Joan Foster Evans  
Hearing Officer  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

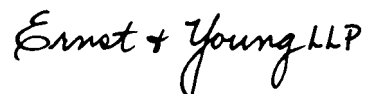
Dear Ms. Evans:

The enclosed materials are being filed pursuant to Verizon New England Inc.'s obligations under D.T.E. 03-63 to obtain independent examinations of its compliance with D.P.U. 91-68. The accompanying material includes:

- Management's Assertion relating to the reporting of Actual Directory Assistance Revenues and Expenses Pursuant to D.P.U. Order 91-68
- Report of Independent Accountants on the company's compliance with D.P.U. 91-68
- Attachment 1 from the annual tracking reports for each of the years ended December 31, 2002, 2001 and 2000
- Exhibit A – Executive Summary
- Exhibit B – Audit Scope and Approach

Please place a copy of the attached independent accountants' reports in the Ex Parte file of the above referenced proceeding.

Very truly yours,



cc: Mr. Kevin O'Quinn

## Report of Independent Accountants

To the Management of  
Verizon Communications Inc.

1. We have examined Verizon New England Inc.'s (the "Company") compliance with the requirements of the Commonwealth of Massachusetts Department of Telecommunications and Energy D.P.U. 91-68 ("D.P.U. 91-68") relating to the reporting of Massachusetts residential directory assistance revenues and expenditures associated with the deployment of Enhanced 911 ("E911") and Disability Access Service costs for the years ended December 31, 2002, 2001 and 2000. Management is responsible for the Company's compliance with those requirements. Our responsibility is to express an opinion on the Company's compliance based on our examination.
2. Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.
3. Our examination disclosed the following instances of material noncompliance with D.P.U. 91-68 during the years ended December 31, 2001 and 2002:
  - i. For the year ended December 31, 2001, the amount reported for residence directory assistance revenues was overstated by \$876,614 due to a mathematical error.
  - ii. For the year ended December 31, 2002, the amount reported for residence directory assistance revenues was intentionally understated by \$876,614 to correct, on a cumulative basis, the overstatement that was reported for 2001.
4. In our opinion, except for the material noncompliance described in paragraph three, Verizon New England Inc. complied, in all material respects, with the aforementioned requirements for the years ended December 31, 2002, 2001 and 2000.
5. This report is intended solely for the information and use of the Company and the Commonwealth of Massachusetts Department of Telecommunications and Energy and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

June 8, 2004

2002 RESULTS  
DPU 91- 68  
\$(000)

## ATTACHMENT 1

## INTRASTATE RESIDENCE

		ACTUAL
	REVENUES :	
L 1	DA INTRASTATE RESIDENCE	5,056
L 2	RESIDENCE CUSTOMER DIVIDEND	0
L 3	TOTAL (L1 + L2)	5,056
	EXPENSES :	
	E 9-1-1 :	
L 4	ANNUAL RECURRING	5,661
L 5	ONE TIME EXPENSE	0
L 6	CAPITAL COSTS	4,312
L 7	TOTAL COMBINED (L4+L5+L6)	9,973
L 8	TOTAL INTRASTATE RESIDENCE	5,670
	DISABILITIES ACCESS :	
L 9	ANNUAL RECUR RELAY CENTER	6,657
L 10	ANNUAL RECURRING OTHER	0
L 11	ONE TIME & CAPITAL COST	1,680
L 12	TOTAL COMBINED (L9+L10+L11)	8,337
L 13	TOTAL INTRASTATE RESIDENCE	4,983
L 14	TOTAL COMBINED (L7 + L12)	18,310
L 15	TOTAL INTRASTATE RES. (L8 + L13)	10,653
L 16	NET OPER REVS (L3 - L15)	(5,597)

Note : Combined Expenses are separated between Interstate and Intrastate based on the current separations factors. The Intrastate expenses are further split to 80% Residence and 20% Business in accordance with the filing. 2002 revenues include an adjustment of \$876,614 to correct for an over reporting of revenues in 2001.

## 2001 RESULTS

## ATTACHMENT 1

DPU 91- 68

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## INTRASTATE RESIDENCE

		ESTIMATE	ACTUAL	DIFF
	REVENUES :			
L 1	DA INTRASTATE RESIDENCE	7,289	7,808	519
L 2	RESIDENCE CUSTOMER DIVIDEND	0	0	0
L 3	<b>TOTAL (L1 + L2)</b>	<b>7,289</b>	<b>7,808</b>	<b>519</b>
	EXPENSES :			
	E 9-1-1 :			
L 4	ANNUAL RECURRING	5,878	5,639	(239)
L 5	ONE TIME EXPENSE	0	0	0
L 6	CAPITAL COSTS	6,969	6,271	(698)
L 7	<b>TOTAL COMBINED (L4+L5+L6)</b>	<b>12,847</b>	<b>11,910</b>	<b>(937)</b>
L 8	<b>TOTAL INTRASTATE RESIDENCE</b>	<b>7,401</b>	<b>7,120</b>	<b>(281)</b>
	DISABILITIES ACCESS :			
L 9	ANNUAL RECUR RELAY CENTER	7,300	7,033	(267)
L 10	ANNUAL RECURRING OTHER	0	0	0
L 11	ONE TIME & CAPITAL COST	1,825	1,625	(200)
L 12	<b>TOTAL COMBINED (L9+L10+L11)</b>	<b>9,125</b>	<b>(8,658)</b>	<b>(467)</b>
L 13	<b>TOTAL INTRASTATE RESIDENCE</b>	<b>5,533</b>	<b>5,245</b>	<b>(288)</b>
L 14	<b>TOTAL COMBINED (L7 + L12)</b>	<b>21,972</b>	<b>20,568</b>	<b>(1,404)</b>
L 15	<b>TOTAL INTRASTATE RES. (L8 + L13)</b>	<b>12,934</b>	<b>12,365</b>	<b>(569)</b>
L 16	<b>NET OPER REVS (L3 - L15)</b>	<b>(5,645)</b>	<b>(4,557)</b>	<b>1,088</b>

Note : Combined Expenses are separated between Interstate and Intrastate based on the current separations factors. The Intrastate expenses are further split to 80% Residence and 20% Business in accordance with the filing.

**2000 RESULTS**  
**DPU 91- 68**  
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**ATTACHMENT 1**

**INTRASTATE RESIDENCE**

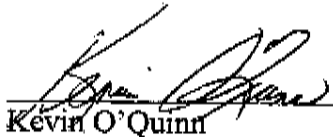
		ESTIMATE	ACTUAL	DIFF
<b>REVENUES :</b>				
L 1	DA INTRASTATE RESIDENCE	8,696	7,672	(1,024)
L 2	RESIDENCE CUSTOMER DIVIDEND	0	0	0
L 3	<b>TOTAL (L1 + L2)</b>	<b>8,696</b>	<b>7,672</b>	<b>(1,024)</b>
<b>EXPENSES :</b>				
<b>E 9-1-1 :</b>				
L 4	ANNUAL RECURRING	5,878	5,835	(43)
L 5	ONE TIME EXPENSE	0	0	0
L 6	CAPITAL COSTS	7,761	7,116	(645)
L 7	<b>TOTAL COMBINED (L4+L5+L6)</b>	<b>13,639</b>	<b>12,951</b>	<b>(688)</b>
L 8	<b>TOTAL INTRASTATE RESIDENCE</b>	<b>8,449</b>	<b>- 7,386</b>	<b>(1,063)</b>
<b>DISABILITIES ACCESS :</b>				
L 9	ANNUAL RECUR RELAY CENTER	6,600	6,826	226
L 10	ANNUAL RECURRING OTHER	0	0	0
L 11	ONE TIME & CAPITAL COST	2,475	2,159	(316)
L 12	<b>TOTAL COMBINED (L9+L10+L11)</b>	<b>9,075</b>	<b>8,985</b>	<b>(90)</b>
L 13	<b>TOTAL INTRASTATE RESIDENCE</b>	<b>5,602</b>	<b>5,448</b>	<b>(154)</b>
L 14	<b>TOTAL COMBINED (L7 + L12)</b>	<b>22,714</b>	<b>21,936</b>	<b>(778)</b>
L 15	<b>TOTAL INTRASTATE RES. (L8 + L13)</b>	<b>14,051</b>	<b>12,834</b>	<b>(1,217)</b>
L 16	<b>NET OPER REVS (L3 - L15)</b>	<b>(5,355)</b>	<b>(5,162)</b>	<b>193</b>

Note : Combined Expenses are separated between Interstate and Intrastate based on the current separations factors. The Intrastate expenses are further split to 80% Residence and 20% Business in accordance with the filing.

Management Assertions relating to the reporting of Actual Directory Assistance  
Revenues and Expenses Pursuant to DPU Order 91-68

For the years ended December 31, 2000, 2001, and 2002

Verizon New England has complied with the accounting requirements of DPU Order 91-68 relating to the reporting of the amounts in the "Actual" column of Residential Directory Assistance Revenues and Enhanced 911 and Disabilities Access Services Costs for Verizon Massachusetts ("Verizon MA") in Attachment 1 of the Annual Tracking Reports for the years ended December 31, 2000, 2001, and 2002 and such reported amounts are fairly stated.<sup>1</sup> Management of Verizon New England is responsible for Verizon New England's compliance with the requirements of DPU Order 91-68.

  
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Kevin O'Quinn  
Director of Regulatory Accounting  
For Verizon Communications Inc.

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<sup>1</sup> As disclosed on page 4 of the Twelfth Annual Tracking Report filed in June 2003, 2002 revenues include an adjustment of \$876,614 to correct for an over reporting of revenues in 2001. Thus, this "instance of material noncompliance," as referenced in the Report of Independent Accountants and the Executive Summary, was identified and corrected by the Company in its June 2003 report, which was filed with the Department prior to conducting the 2004 independent audit.

**Executive Summary**

Based on the requirements outlined in RFP #R0301318 and Order D.T.E 03-63 further referencing D.P.U 91-68, our assessment was performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants (AICPA), specifically, AT Section 601– Compliance Attestation. We developed and executed the procedures outlined in Attachment B and our proposal which enabled us to opine on management’s assertion. Management’s assertion related to compliance with D.P.U. 91-68 includes compliance with the Residential Directory Assistance (“DA”) revenues and Enhanced 911 (“E911”) and Disability Access Services for the Annual Tracking Reports for 2000, 2001 and 2002.

D.P.U. 91-68 required that Verizon New England Inc.<sup>1</sup> (the “Company”) develop a unique accounting process to report Residential DA revenues and E911 and Disabilities Access Service expenses. The general purpose of this engagement was to ensure Residential DA revenues and E911 and Disability Access Service expenses were fairly stated in the Annual Tracking Reports for the years ended December 31, 2000, 2001 and 2002.

We obtained all supporting documentation for each of the Annual Tracking Reports including Residential Directory Assistance revenues and expenses related to E911 and Disabilities Access Services. Supporting documentation included the following:

Revenues:

- General ledgers for the years ended December 31, 2000, 2001 and 2002;
- Identification of specific accounts utilized to capture and report Residential DA revenues for the state of Massachusetts only.

Expenses:

- Expense support including invoices for equipment purchases;
- Invoices submitted to Verizon for Relay Center operations; and,
- Calculation for separations factors utilized in determining depreciation expense dollars between Federal and State as well as business and residential.

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<sup>1</sup> At the time 91-68 was issued, the Company was New England Telephone and Telegraph.

Additionally, Ernst & Young leveraged prior financial statement audit workpapers to obtain an understanding of the process utilized to capture both revenues and expenses from prior years as well as examine the applicability of any recommendations to our conclusion. We have reviewed all systems utilized to capture both revenues and expenses for the purposes of financial statement audits over the past three years in the following areas:

- CRIS billing system utilized to capture and bill Verizon customers for Residential Directory Assistance;
- Tariff rate table changes;
- DOPAC<sup>2</sup> system changes; and,
- PeopleSoft system modifications and security.

Although our testing of internal controls over processes related to administration of the systems noted above did uncover certain observations (i.e., unauthorized users, etc.), in our opinion, these observations do not impact our opinion related to the annual tracking reports submitted by the company.

In conclusion, our audit procedures uncovered the following areas of material noncompliance:

- For the year ended December 31, 2001, the amount reported for residential directory assistance revenues was overstated by \$876,614 due to a mathematical error.
- For the year ended December 31, 2002, the amount reported for residential directory assistance revenues was intentionally understated by \$876, 614 to correct, on a cumulative basis, the overstatement that was reported in 2001.

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<sup>2</sup> The system utilized to capture expenses in 2000 was migrated to PeopleSoft from DOPAC. Although expenses captured in 2000 can still be accessed in through a reporting tool, the application is no longer utilized by the Company.



## **Audit Scope and Approach**

### **Overview**

Ernst & Young developed and performed audit procedures which enabled us to opine on management's assertion related to compliance with D.P.U. 91-68. Management's assertion included compliance with the Residential Directory Assistance revenues and Enhanced 911 ("E911") and Disability Access Services for the Annual Tracking Reports for 2000, 2001 and 2002. Audit scope, methodology, and procedures performed are described in detail below. For a detailed listing of our findings, please see the Report of Independent Accountants, Attachment A, and the audit workpapers.

Based on the requirements outlined in RFP #R0301318 and Order D.T.E 03-63 further referencing D.P.U 91-68, our assessment was performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants (AICPA), specifically, AT Section 601– Compliance Attestation. .

### **Audit Scope & Methodology**

The scope of our procedures included validating the material accuracy, in accordance with D.P.U. 91-68, of the applicable revenue(s), expenses(s), and resulting net operating revenue/deficit reported in the Annual Tracking Reports for 2000, 2001, and 2002 filed by Verizon New England to the Massachusetts Department of Telecom and Energy ("DTE"). Procedures for each year in scope were performed independently of each other (i.e. a separate set of procedures was performed for each of the three years). Fieldwork focused on assessing the accuracy, in accordance with D.P.U. 91-68, of the following line items included in the DTE Report(s):

1. Directory Assistance Revenues – the annual revenues associated with providing directory assistance to Massachusetts intrastate residential customers.
2. E-911 Expense – the annual cost(s) associated with providing E-911 services to intrastate residential Massachusetts customers.
3. Disabilities Access Expense – the annual cost(s) associated with providing Disabilities Access services to intrastate residential Massachusetts customers.

#### *Directory Assistance Revenues*

Preliminary procedures developed and performed to determine whether directory assistance revenues were fairly stated and reported in accordance with DPU 91-68 were as follows:

- Develop understanding of method, systems and processes utilizing to capture revenues for DA.
- Identify General Ledger account or sub-accounts where revenues are booked.
- Confirm method utilized to capture DA revenues are appropriate.

- Confirm the charge to customers for DA matches the tariff rates.
- Identify adjustments, if any, that have occurred during each calendar year under the scope of this review to ensure accuracy.
- Test General Ledger and respective sub-ledgers to ensure revenues reported match to those revenues for each of the years included within the 2001, 2002 and 2003 Annual Tracking Reports for the years 2000, 2001 and 2002 respectively.

The Ernst & Young team participated in several meetings with Verizon New England personnel and requested/ reviewed supporting documentation to develop a detailed understanding of the annual process utilized to capture the Massachusetts intrastate residential directory assistance revenue. This process is documented in the “Directory Assistance Revenue Memorandum” (A-1010).

To assess the accuracy of the revenues reported in the Annual Tracking Reports (A-1100, A-1110, A-1120), Ernst & Young requested and obtained the balances in the appropriate revenue accounts, as well as other additional documentation required, and recalculated the directory assistance revenues for each of the years 2000, 2001, and 2002. Please see “Revenue Testing Memorandum” (A-1040) for additional detail regarding the methodology used, procedures performed, and results of the directory assistance revenues testing.

#### *E-911 Expenses*

Preliminary procedures developed and performed to determine whether expenses associated with providing E-911 services to Massachusetts residential customers were fairly stated and reported in accordance with DPU 91-68 were as follows:

- Develop understanding of the method, systems and processes utilized to capture expenses for E911.
- Identify the General Ledger account or respective sub-accounts where expenses related to E911 are booked.
- Confirm method utilized to capture and report E911 related expenditures are appropriate.
- Identify adjustments, if any, that have occurred during each of the calendar years under the scope of this review to ensure accuracy.
- Test expenditures, on a sample basis, to ensure E911 expenditures reported within the General Ledger and respective sub-ledgers are appropriate and coincide with E911 expenditures related to providing service to MA residential customers. Separate samples will be created for each of the three Annual Tracking reports.
- Test General Ledger and respective sub-ledgers to ensure E911 related expenditures match to those expenditures for each of the years included within the 2001, 2002 and 2003 Annual Tracking Reports for the years 2000, 2001 and 2002 respectively.

The Ernst & Young team participated in several meetings with Verizon New England personnel and requested/ reviewed supporting documentation to develop a detailed

understanding of the annual process utilized to capture the costs associated with providing E-911 service(s) to Massachusetts intrastate residential customers. This process is documented in the “E-911/Disabilities Access Expense Memorandum” (A-1020).

To assess the accuracy of the E-911 expenses reported in the Annual Tracking Reports (A-1100, A-1110, A-1120), Ernst & Young requested and obtained project expense reports for one month in each of the years in scope. Departmental expense totals associated with the E-911 project were summed and traced forward to the expense amounts filed in the DTE reports. As a part of this procedure, Ernst & Young reviewed the process used by VZ New England to calculate and apply an intrastate separations factor to the E911 expenses. Documentation of this process can be found in the “Expense Testing Memorandum” (A-1030).

Additionally, Ernst & Young selected a sample of expense items from each of the years in scope to assess (1) the accuracy of the individual expense amount reported, and (2) the degree to which the expense item was associated with providing E-911 services to Massachusetts residential customers. The sample items selected, sample methodology used, supporting documentation provided, as well as the results of our testing can be found in the “Expense Testing Memorandum” (A-1030).

#### *Disabilities Access Expenses*

Preliminary procedures developed and performed to determine whether disabilities access expenses were fairly stated and reported in accordance with DPU 91-68 were as follows:

- Develop understanding of the method, systems and processes utilized to capture expenses for Disabilities Access.
- Identify the General Ledger account or respective sub-accounts where expenses related to Disabilities Access are booked.
- Confirm method utilized to capture and report Disabilities Access related expenditures are appropriate.
- Identify adjustments, if any, that have occurred during each of the calendar years under the scope of this review to ensure accuracy.
- Test expenditures, on a sample basis, to ensure Disabilities Access expenditures reported within the General Ledger and respective sub-ledgers are appropriate and coincide with Disabilities Access expenditures related to providing service to MA residential customers. Separate samples will be created for each of the three Annual Tracking reports.
- Test General Ledger and respective sub-ledgers to ensure Disabilities Access related expenditures match to those expenditures for each of the years included within the 2001, 2002 and 2003 Annual Tracking Reports for the years 2000, 2001 and 2002 respectively.

The Ernst & Young team participated in several meetings with Verizon New England personnel and requested/ reviewed supporting documentation to develop a detailed understanding of the annual process utilized to capture the costs associated with

providing disabilities access service(s) to Massachusetts intrastate residential customers. This process is documented in the “E-911/Disabilities Access Expense Memorandum” (A-1020).

Ernst & Young utilized testing procedures similar to those used in the E-911 expense testing to assess the accuracy of the disabilities access expenses reported, including the derivation and application of intrastate separations factors. Department expense reports were obtained, totaled, and traced forward to the Annual Tracking Reports. Additionally, sample expense items were selected and supporting documentation was obtained and tested using the same methodology as used for E-911 related expenses. The sample items selected, sample methodology used, supporting documentation provided, as well as the results of our testing can be found in the “Expense Testing Memorandum” (A-1030).